

**Before the
Federal Communications Commission
Washington, District of Columbia 20554**

In the Matter Of)	
)	
Developing a Unified Inter-carrier)	CC Docket No 01-92
Compensation Regime)	

1. ITCs, Inc. an economic cost consultant to independent telephone companies serving America’s high cost rural areas in six states respectfully comments as follows:

2. The introduction to the *Notice of Proposed Rulemaking (NPRM)* begins with the statement; “With this *Notice of Proposed Rulemaking (NPRM)*, we begin a fundamental reexamination of all currently regulated forms of intercarrier compensation.” ITCs agrees a fundamental and comprehensive reexamination of intercarrier compensation is needed. The industry **had** a very good form of intercarrier compensation, namely that of charging all service providers access charges on a per minute of use basis. This was the case until the Federal Communication Commission (FCC) made certain assumptions inconsistent with the good form of intercarrier compensation. We believe the FCC erroneously assumes that ‘enhanced services’ are local services and in particular that “Internet services are enhanced services” and therefore do not have to pay usage sensitive access charges even though they significantly increase usage of usage sensitive equipment.

3. The reexamination of intercarrier compensation would not be needed if the FCC had not allowed certain service providers to pay flat rate charges for significant increases in traffic between service providers as a means of promoting competition. The most practical way of getting all service providers on the same form of intercarrier compensation is to reverse these types of decisions and let everyone pay the costs of the network on a usage sensitive basis, whether they originate or terminate traffic, particularly when a local switch is involved. Once the local switch is no longer required, flat rate pricing may become appropriate.

4. Absent the reversal of flat rate pricing for usage sensitive equipment it would appear the FCC is bent on moving forward to the Bill and Keep (B&K) form of intercarrier compensation. The B&K compensation system appears to have the potential to work well in urban areas, given their high customer densities, but a B&K system will work to the disadvantage of rural customers and the Local Exchange Carriers (LECs) providing these customers with service today.

5. In addition, B&K will undermine the system of universal service support to rural carriers. A B&K arrangement would increase local rates in rural areas to such a high level the whole system of universal service would be in jeopardy unless there are significant increases in high cost support. It must be noted the support lost through access charges in many cases is mostly the cost of the switch for placement of interexchange calls and the related transport costs, which are traffic sensitive costs not adequately recovered through the high cost support systems in place today.

6. The B&K system, without adequate support, would hasten the demise of the rural companies providing local service today, because the rural companies cannot survive without customers and the rural customer cannot afford the high cost of service under the B&K arrangement, without additional support. It could be argued that the wireless carriers could fill some of the gaps left by a departing ILEC; however, wireless service is not provided in all rural locations.

The charts following show examples of what happens to the local rates of four different LECs **under the proposed Bill and Keep arrangements, if implemented on an interstate and intrastate basis, upon receiving only the current Loop Cost Support and Local Switching Support from the Universal Service Administration Company (“USAC”).**

Company A has a large local calling area outside its exchange area and high toll rates; minimal high cost support; plant that is aging - but in good condition and low customer density.

Jurisdiction	MOUs	Rate	Per Subscriber
Local (per month)	1,595	Flat	\$ 19.84
Interstate (per month)	266	\$.0486	12.93
Intrastate (per month)	206	\$.099	20.39
New Local Rate	2,067		<u>\$ 53.16</u>
Cost per MOU			\$.0257

Company B has no local calling area outside its exchange; low toll rates; significant local loop support on approximately one-half its modernized outside plant; and low customer density

Jurisdiction	MOUs	Rate	Per Subscriber
Local (per month)	641	Flat	\$ 21.65
Interstate (per month)	379	\$.0465	17.62
Intrastate (per month)	400	\$.0153	6.12
New Local Rate	1,420		<u>\$ 45.39</u>
Cost per MOU			\$.0320

Company C has some local calling area outside its exchange; low toll rates; no local loop support on good but aging outside plant; and high customer density

Jurisdiction	MOUs	Rate	Per Subscriber
Local (per month)	979	Flat	\$ 7.00
Interstate (per month)	240	\$.0489	11.73
Intrastate (per month)	149	\$.0486	7.24
New Local Rate	1,368		<u>\$ 25.97</u>
Cost per MOU			\$.0190

Company D has no local calling area outside its exchange; has good by aging plant; and low customer density.

Jurisdiction	MOUs	Rate	Per Subscriber
Local (per month)	576	Flat	\$ 21.19
Interstate (per month)	212	\$.1190	25.22
Intrastate (per month)	431	\$.0975	42.02
New Local Rate	1,219		<u>\$ 88.43</u>
Cost per MOU			\$.0731

The Minute of Use jurisdictional separations/universal service support formula put forward by ITCs in CC Docket 80-286 would eliminate these variations and allow the B&K arrangement to work even in rural areas, because it covers all of the high cost needs of rural areas.

7. Much of the current aggregate access charged by LECs, after the loop cost support and even after Local Switching Support are taken into consideration, is the cost of the switch and related transport costs. Because of the significant lack of density in rural areas and because of the network requirements for providing ubiquitous long distance capabilities and other technical services, the costs of switching are much higher (in many cases as much as ten to fifteen times higher in rural areas) on a per minute of use basis in rural areas than in urban areas. In nearly any given rural exchange from fifteen to fifty percent of the local customers seldom or never make a long distance call. Under the B&K arrangement this customers base would be paying for the cost of the network capabilities they do not use. LECs/CLECs would be forced to increase their local rates, which may cause customers to drop off the network.

8. Furthermore, the amount of traffic transiting the switch has significantly increased in many rural exchanges due to the internet. This increase in internet traffic has caused increased expenditures in rural areas which in turn increases the transport access charges on a per minute-of-use basis. Yet, in any given exchange, approximately fifty percent of the customers do not use Internet service. Under the B&K arrangement this customer base will be paying for the cost of the increased requirements of the network they do not use.

9. In a pure economical sense, the carrier, whether it provides long distance or enhanced services, has no interconnection rights other than the ones for which it has paid.

“There is no free lunch”. When exchange carriers receive no compensation for network activity, they cannot be expected or required to maintain and upgrade their equipment for advanced network requirements, many of which are uneconomical in their exchanges. The network should be dependent on the needs of the LEC/CLEC ratepayers. When the interexchange carrier is not the ratepayer, the interexchange carrier has no rights to influence how or if the LEC/CLEC interconnects with the interexchange carrier. The B&K arrangement could well lead LECs to make decisions based purely on costs rather than on network viability. Using the economics of the carrier’s own exchange, a decision could be made to place a much more economical switch, i.e., a large PBX in an exchange, rather than a high cost switch which is needed for network requirements such as placing and receiving long distance calls. While such a decision could play havoc with the network, in some companies, a decision for a more economical means of switching may be just what is needed to bring the cost of local service to a low enough level for customers to request service from a viable telephone company, without additional support.

10. Thus, a B&K system could discourage investment in the network; a perverse result contrary to the Commission’s stated intention to encourage efficient use of an investment in telecommunications networks and the Commission goal of universal service. Notice at paragraph 2. The network is of much less value to everyone involved if it is neither ubiquitous nor universal. Therefore it would seem everyone involved would want the proper compensation arrangements for the continued vibrancy of the telephone network, even if ISP providers no longer get a free ride. It is worth noting that rural local

loops were placed in service at a time when the cost to the customers was reduced by a transfer of revenues from urban exchanges, business customers and toll revenues to fund local service and to enhance universal service. It would seem incomprehensible at this time to utilize a B&K arrangement, where the residential customer would be required to pay for the usage of the facilities by the long distance providers, and to subsidize the toll network in the future as the ISPs are being subsidized today. The proposed B&K arrangement has the local customer paying the full cost of the local exchange network. This is like robbing the poor, (the customers who do not use the services), to give to the rich, (the toll/network providers and ISP providers), a reversal of the Robin Hood scenario.

Conclusion

In conclusion, the intercarrier compensation plan of B&K will jeopardize universal service to the telephone customers of rural America, it will jeopardize the providers who currently provide the service, it will jeopardize the ubiquity of the network and it commits the wrong parties to pay for the network.

Respectfully submitted,

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